

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002**

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Bases of Budgeting

With the exception of the reconciling items described in the Reconciliation of Budgetary Basis and Generally Accepted Accounting Principles (GAAP) Basis Statements and Schedules section of this note, King County uses the modified accrual basis of budgeting for the General Fund, and most Debt Service and Special Revenue Funds. Revenues are estimated on the basis of when they become susceptible to accrual, such as intergovernmental revenues where revenue estimates are matched with appropriations. Budgeted appropriations include both Expenditures and Other financing uses; they are budgeted based on liabilities expected to be incurred in the acquisition of goods and services. These are annual budgets, i.e., they are applicable to the current fiscal year.

Twenty-four Special Revenue Funds have an annual budget with budgeting concepts identical to the General Fund. Twenty-three of these funds are presented in the budget and actual schedules of this report. One of these funds, the Arts and Cultural Education Fund, was inactive in 2002.

Two funds within the Special Revenue Fund type do not have an annual basis of budgeting. They are the Community Development Block Grant Fund and the Miscellaneous Grants Fund. Budgets within these funds are on a multi-year basis with the budget for a particular program covering one or more fiscal years. Total revenues and expenditures for the program are budgeted at its inception and any unexpended balance at the end of the fiscal year is reappropriated to the next fiscal year.

The Flood Control Zone Districts Funds are not budgeted. These funds account for four flood control zone districts' activities in accordance with chapter 86.15 RCW.

The Lake Management District Fund is not budgeted. This fund accounts for Lake Management District special assessment activity in accordance with chapter 36.61 RCW.

The Road Improvement Districts Maintenance Fund is not budgeted. This fund reports the road district maintenance assessment activity in accordance with chapter 36.88 RCW.

The Treasurer's Operations and Maintenance Fund, pursuant to RCW 84.56.020, is not budgeted.

Three Debt Service Funds have an annual budget with budgeting concepts identical to the General Fund. These funds are presented in the budget and actual statements of this report. In the Limited General Obligation Bond Redemption Fund, revenues and expenditures related to proprietary type debt service payments are budgeted.

Two Debt Service Funds, the Road Improvement Districts Special Assessment Debt Redemption Fund and Road Improvement Guaranty Fund, are not budgeted. These funds report road improvement districts' special assessments revenues and debt service expenditures in accordance with chapter 36.88 RCW.

All funds in the Capital Projects Fund type, except the Road Improvement Districts Construction Fund, are controlled by multi-year budgets. However, capital budget appropriations are canceled at the end of the year, unless the County Executive submits to the County Council

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the report of the final year-end reconciliation of expenditures for all capital projects on or before March 1 of the year following the year of the appropriation, and each year thereafter in which the appropriation remains open.

The Road Improvement Districts Construction Fund is not budgeted. This fund reports capital improvement assessments construction activity in accordance with chapter 36.88 RCW.

The Enterprise and Internal Service Funds (with the exception of the Insurance Fund) are budgeted on the modified accrual basis rather than the accrual basis (the GAAP basis for proprietary funds). Appropriations are based on an estimate of expenditures expected to be incurred in the acquisition of goods and services during the fiscal year. Estimated revenues are based on the amount estimated to be earned and available during the fiscal year.

The Insurance Fund is budgeted on the modified accrual basis with one exception. Consistent with the intent of the County ordinance that delegates full claims settlement authority to the County Executive, the recognition of the portion of judgment and claim settlements that occurs and remains unpaid at the end of a fiscal year, and exceeds current year expenditure appropriations, is deferred to the following year when the claim is paid. In 2002 no judgment and claim settlement recognition was deferred to a future period on the budgetary basis schedules due to insufficient appropriations in the current year.

The Trust and Agency Funds are not budgeted.

Encumbrances

Encumbrances outstanding as of December 31, 2002, are shown in the following schedule by fund type:

YEAR-END ENCUMBRANCES OUTSTANDING AS OF DECEMBER 31, 2002

General Fund	\$ 4,867,134
Public Health Fund	930,270
Special Revenue Funds	12,830,105
Capital Projects Funds	98,532,586
Enterprise Funds	3,738,658
Internal Service Funds	<u>5,244,970</u>
Total All Funds	<u>\$ 126,143,723</u>

Reconciliation of Budgetary Basis and GAAP Basis Statements and Schedules for Governmental Funds

In the General and budgeted Special Revenue and Debt Service Funds, the legally prescribed budgetary basis differs from the GAAP basis in 2002. For those statements and schedules in which budget comparisons are presented, the legally adopted budget is compared with

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actual data on the budgetary basis rather than the GAAP basis. Governmental funds budget to actual statements and schedules include an explanation of the differences between the two bases. All statements that do not have budget comparisons are prepared on the GAAP basis.

Budgeted Level of Expenditures

Appropriations are authorized by ordinance, generally at the fund level, with the exceptions of the General Fund and five Special Revenue Funds (the Community Development Block Grant, County Road, Criminal Justice, Developmental Disabilities, and Miscellaneous Grants Funds), which are appropriated at the department/division level, and Capital Projects Funds, which are appropriated at the project level.

These are the legal levels of budgetary control. Unless otherwise provided by the appropriation ordinances, all unexpended and unencumbered annual appropriations lapse at the end of the year. The schedules of revenues, expenditures, and changes in fund balances/retained earnings-budget (non-GAAP budgetary basis) and actual include variances at the function of expenditure level. These variances are presented for informational purposes only and, if negative, do not constitute a legal violation. Administrative control is guided by the establishment of more detailed line item budgets.

Expenditures including Other Financing Uses, in Excess of Amounts Legally Authorized

Funds with Multi-year Budgets

Eighty-six capital projects with multi-year budgets in twenty-six CIP and enterprise funds have expenditures in excess of budget at year-end. Prior year capital project transfers of \$22.8 million to a debt service fund and \$16.0 million to a component unit require additional appropriation through a corrections ordinance. The other eighty-four projects have expenditures of \$3.7 million in excess of budget. These projects will also be corrected by additional appropriations in 2003.

Funds with Annual Budgets

All funds and departments/divisions with annual budgets completed the year within their legally authorized expenditures, including other financing uses.

Fund Balance and Net Asset Deficits

Building Construction and Improvement – The deficit of \$29,966,467 is the result of using short-term bond anticipation notes to finance long-term capital projects. This short-term borrowing is scheduled to be replaced by general obligation bonds in 2003. The proceeds of the future bond issue will be recorded as other financing source in the capital projects fund, thereby eliminating the fund balance deficit.

County Road Fund – The deficit fund balance of \$1,274,773 is the result of collected revenues not meeting projected levels, offset by under expenditures in 2002. The County Road Fund deficit was reduced in 2002 by \$3.2 million from \$4,456,471. The most significant revenue source

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undercollected was due to property sales that did not occur in 2002 that are expected to be collected in 2003. A positive ending fund balance of \$1.2 million is projected for 2003.

Employee Benefits Program Fund – The deficit of \$43,283 is the result of prior net losses of \$4,219,630 and \$4,065,372 during 2000 and 2001, respectively. The deficit is being addressed in subsequent years through rate setting.

Long-term Leases Fund – The deficit of \$201,399 is the result of unreimbursed expenditures for various tenant improvements and earthquake repairs. The County plans to recover the costs of tenant improvements over several years through increased monthly billings to benefiting agencies. Reimbursement from the Federal Emergency Management Agency (FEMA) is expected to cover some portion of the earthquake repair costs.

Road Improvement Districts Construction Fund – The deficit of \$23,109 is the result of using short-term debt to finance the various projects of the road improvement districts. As capital projects are completed, short-term debt is replaced by long-term bonds. Bond proceeds are recorded as other financing source, thereby eliminating the deficit.

Safety and Workers' Compensation Fund – The deficit of \$7,891,666 is the result of losses in several years in the last ten years. The rates charged by the fund for workers' compensation are sufficient to meet current cash flow requirements but only fund a portion of its long-term liabilities.

Transfer of Development Credit Program Fund – The deficit of \$1,489,849 is the result of using short-term borrowing to finance expenditures in anticipation of planned contributions from the Conservation Futures Levy fund.

Public Transportation Enterprise Bond Covenants

During 2002 the Public Transportation Enterprise complied with all covenants stipulated by its bond resolutions, except for providing audited 2001 financial statements within 120 days of year-end. The Enterprise had six months beyond the 120 days to rectify the situation. The statements and report were provided within the six-month period. In 2003 the Enterprise again has complied with all covenants, except for providing 2002 audited statements within 120 days of year-end. The 2002 financial statements will be completed within the six-month extension period.

Water Quality Enterprise Bond Covenants

During 2002 the Water Quality Enterprise complied with all covenants stipulated by its bond resolutions, except for providing audited 2001 financial statements within 120 days of year-end. The Enterprise had six months beyond the 120 days to rectify the situation. The statements and report were provided within the six-month period. In 2003 the Enterprise again has complied with all covenants, except for providing 2002 audited statements within 120 days of year-end. The 2002 financial statements will be completed finalized within the six-month extension period.